

LIFE INSURANCE FACES WAR CHALLENGE



NORTH AMERICAN LIFE ASSURANCE COMPANY

ADDRESS OF MR. D. E. KILGOUR, PRESIDENT AND GENERAL MANAGER OF NORTH AMERICAN LIFE, DELIVERED AT THE ANNUAL GENERAL MEETING OF THE COMPANY, JANUARY 15TH, 1940.

THE FINANCIAL POST

The Canadian Newspaper for Businessmen and Investors

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The Nation's Business

Opportunity to Solve National Problems

If the outbreak of war has increased Canada's responsibilities, it has at the same time greatly increased our opportunity for meeting and solving national problems.

The implications of this in terms of everyday citizenship were stressed this week by David E. Kilgour, president and general manager, North American Life Assurance Co., in addressing the company's annual meeting at Toronto.

Making his first address as president of the company, Mr. Kilgour pointed out that one result of the war was to generate in our people "a spirit of co-operation that will make it easier for our political leaders, when peace comes, to solve the railway and other national problems that have been confronting us."

"In particular," he added, "we hope that they will be able to deal with the changes in the B.N.A. Act that are urgently needed in the interests of national unity."

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THE PRESIDENT'S ADDRESS

DELIVERED AT THE ANNUAL GENERAL MEETING OF THE COMPANY,
JANUARY 15TH, 1940

Assets

Total assets reach an amount of \$65,001,883 at December 31st. The increase for the year was 5.2%. The distribution of the assets is shown in the balance sheet, and in the following table we have indicated not only the assets but also the change during the year.

<i>Classification</i>	<i>December 31, 1939</i>	<i>Change during year</i>
Bonds & Debentures		
Government	\$18,710,397	\$1,479,460
Municipal	9,618,071	80,909
Corporate	9,039,054	1,092,708
Total	<u>37,367,522</u>	<u>2,653,077</u>
Stocks		
Preferred	1,264,429	—21,223
Institutional	1,540,586	
Common	743,936	23,015
Total	<u>3,548,952</u>	<u>1,792</u>
Mortgages & Property Sales		
Urban	11,071,631	579,621
Farm	1,290,382	—31,586
Total	<u>12,362,013</u>	<u>548,035</u>
Real Estate		
Urban	1,067,180	—21,892
Farm	198,233	2,935
Head Office	700,000	—50,000
Total	<u>1,965,413</u>	<u>—68,957</u>
Policy Loans	7,247,962	—337,845
Cash	873,797	325,030
TOTAL INVESTED ASSETS	<u>63,365,660</u>	<u>3,121,134</u>
Interest Due and Accrued	692,103	32,997
Net Outstanding and Deferred Premiums	944,120	53,188
TOTAL ASSETS	<u>\$65,001,883</u>	<u>\$3,207,319</u>

We are particularly gratified this year to record an increase of \$579,621 in our urban mortgage account. During the last several years, great difficulty has been experienced in obtaining in volume the type of loans desired, with the result that the total invested in this important section of the Company's earning assets has remained relatively steady in amount, and has progressively declined as a percentage of our total assets. The renewed building activity in 1938 and 1939, partially under the stimulus of the National Housing Act, has again opened this channel of investment and the Company was able to participate in the financing of many homes and other properties. Prospects for further increases in this account are not particularly bright during 1940 in view of the fact that the National Housing Act now limits loans to \$4,000 or less.

Fortunately the Company's investments in farm mortgages amount to less than 2% of our total assets and are not very great. The total showed a further decline during 1939.

Collections on account of mortgages showed improvement during the year. Cash collections amounted to 91.6% of the interest charged for 1939. Improved collections were particularly evident in Saskatchewan where, due to the better crops last year, many accounts were placed in better shape. This experience demonstrates the recuperative powers of the West.

The total of our urban real estate holdings declined by \$21,892 during the year. Change in our total of farm properties was only nominal.

Again the major increase in assets has been in our bond account. Government bonds increased by \$1,479,460; municipal bonds by \$80,909, and corporation bonds by \$1,092,708. This increase has not been necessarily of our own choosing, but has been the result of a paucity of other avenues of suitable investment in sufficient volume.

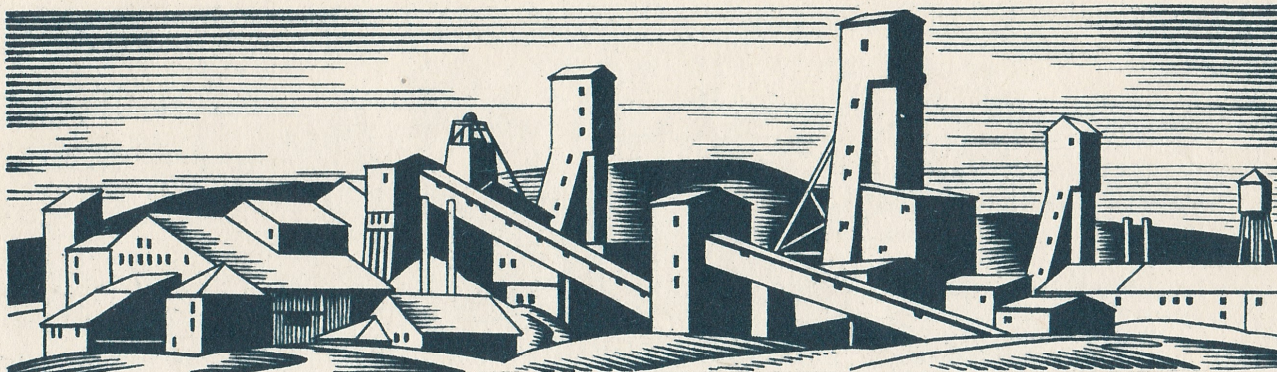
During the year our bond account has been further diversified as to type of security; maturities have been shortened slightly, and the average quality improved through the addition of new securities of the highest type and the disposal of some issues which showed evidences of intrinsic depreciation.

Our stock account has remained approximately the same, and changes during the year were only nominal and aimed at further diversification.

There was a further decline in policy loans of \$337,845 and an increase in cash on hand. The increase in our due and accrued interest and in net outstanding and deferred premiums was \$86,185.

INTEREST TRENDS AND GOVERNMENT LOANS

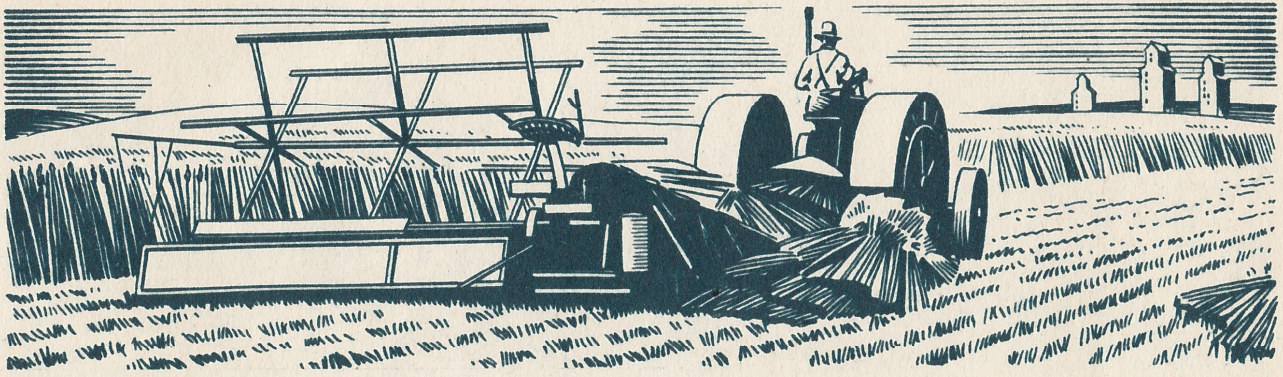
The rate of interest earned by the Company during the past year was 4.68—a very slight reduction from that of the previous year of 4.70. The individual rates on mortgages and real estate, owing to recovery of interest due, showed slight increases, while the rates earned on bonds and stocks declined somewhat. For several years the increase in the Company's assets has been chiefly reflected in the increase in the bond account. If the trend of interest rates does not turn, it must be expected that the average interest rate earned by the Companies will



continue to decline, and the rate of decline will probably be greater than that experienced during the past year. The writing down of securities in recent years has had the effect of course of artificially maintaining a higher interest rate, but the difficulty of obtaining new investments at rates of interest previously obtained must inevitably affect the interest earnings of life insurance companies as well as of other financial institutions. Having regard to all the circumstances, however, we consider the interest rate experienced in the past year as very gratifying.

It would be foolish to attempt to prophesy what will happen in the future either in respect to market values or rates of interest. If we were in normal times we might anticipate these with some accuracy, but Canada is now at war and it is as difficult to chart the course of finances as it is to chart the course of the war itself. One thing certain is that we will require to mobilize in the most effective way possible our financial and other resources. Borrowing by the Dominion Government in substantial amounts will be necessary. The Government will desire, and indeed has a duty, to borrow these at reasonable rates of interest. Whether it will prove wise to rely too greatly on the patriotic fervour of the people to obtain money at unattractively low rates of interest remains to be seen. Canada responded enthusiastically in the last war to the calls made for subscription, and of course will do so again. Much is said about the duty of the Government to uphold business efficiency in the conduct of our national affairs. No one desires to criticize those in authority. Many of our leaders are men who at great personal sacrifice are devoting their talents and their energy to the more or less thankless task of managing the country's affairs. The public are not politically minded at the present time, and we are satisfied to support any Government that applies itself with energy and unselfishness to the prosecution of the business at hand. However enthusiastic we may be about giving our all in order to bring the war to a successful termination, we must remember that there is also a long point of view, and that we must maintain national solvency if we hope to maintain our national integrity. There is a challenge to us all, and we cannot delegate the responsibility altogether to the men at the front and to the over-worked and often under-paid public officials and leaders of our Governments.

As a Company we anticipate that we will be required from time to time to subscribe to Government loans, and we believe that we have your authority to do our part. The Dominion of Canada has never repudiated its obligations, and we are satisfied that Dominion bonds will continue to prove not only an excellent investment but will rank high among the best securities available in this or in any other country. For the reasons mentioned it is entirely probable that in the future there will be substantial increases in our Government bond account, and



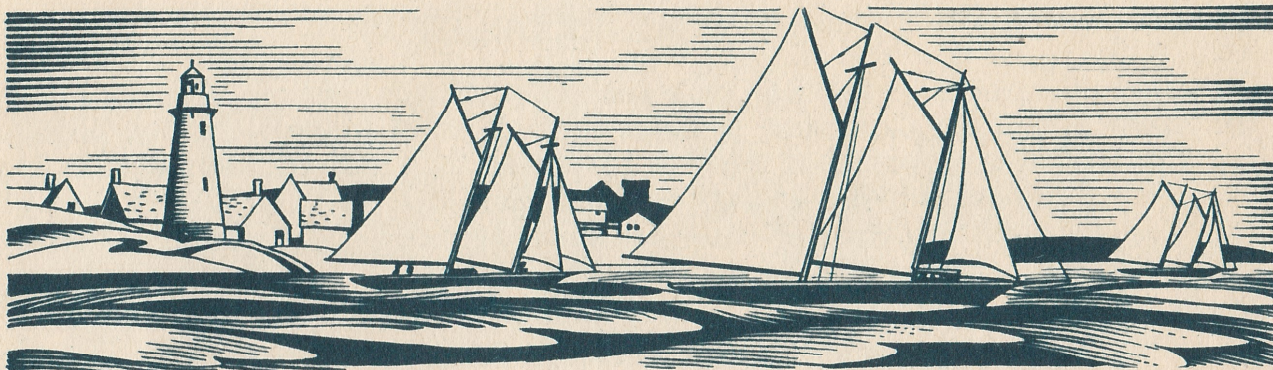
having regard to the character of the investment it is probable that rates of interest earned on new investments will decline somewhat further in the future.

INVESTMENT RESERVE AND SURPLUS FUNDS

During the year the Company realized \$167,176 net profit on the sale of investments and recoveries of amounts previously written down. An amount of \$44,219 was utilized to adjust book values to lower levels. The balance of the existing investment reserve and an amount of \$88,524 transferred from surplus earnings was used to establish an investment reserve of \$1,600,000—an increase of \$200,000 over that of the previous year. This investment reserve, together with voluntary dividend provisions and free surplus, forms a combined total of \$5,558,170. This amount does not include \$666,317 in surplus accrued to the account of deferred dividend policies nor specific reserves of \$101,738, which have been deducted from certain asset accounts. Having regard to the substantial margin of market over book values for which no credit has been taken in the statement, and also the stringent nature of the Company's policy reserves, we believe that under all the circumstances you will consider that your Directors have acted with prudence in providing so large a margin against future contingencies.

UNITED STATES

We are glad to have as partners our policyholders in United States. We have an important and growing business in the States of Michigan and Washington. We are satisfied that our United States policyholders have every sympathy for Canada as a belligerent in this great war. We wish at this moment to address ourselves particularly to our United States policyholders, and to assure them that their status as policyholders is in no way prejudicially affected by the circumstance that Canada is at war. In the first place the Company was never as strong as it is today, and we can say with the greatest confidence that the slogan adopted by the management some twenty-five years ago, that the financial position of the Company is unexcelled is as true today as it was then. Apart from the great general strength of the Company, however, is the fact that in our operations in United States we cover our reserves by securities that are physically lodged under trust deeds in United States, and that are accepted by the United States Departments of Insurance as securities of the highest and unquestioned ranking.



The reserves on United States business are being invested in United States debtor securities, while other securities which have been deposited in the past, and some of which are Dominion of Canada bonds payable in United States currency, provide unquestioned security to our United States policyholders. The Company maintains ample reserves to meet fluctuations in exchange, so that our United States policyholders will have abundant reason to share the confidence of other policyholders in the ability of the Company to meet its obligations. We are pleased to observe in this connection that the great insurance journals of United States have always given the North American Life the highest ranking among the companies doing business on this continent.

TWENTY-FIVE YEARS AGO AND TODAY

It seems appropriate at this time to examine briefly the Company's position twenty-five years ago, at the commencement of the other great war. At that time the Company's assets were under 15 million dollars—less than a quarter of what they are today. Policy reserves were $12\frac{1}{2}$ million dollars on business in force of about 54 millions dollars. New business was at the rate of about $7\frac{1}{2}$ million dollars annually, and premium income totalled \$1,850,000. The Company's free surplus and investment reserves at the end of 1914 amounted to some \$467,000, of which over \$90,000 was required to provide for an excess of book over market values of investments. Considering the substantial progress made by the Company during the last war and comparing the relative positions in 1914 and 1939, there is every reason to feel confident of the Company's ability to withstand the strain of war.

While we have every reason to be gratified with the present position of the Company as compared with 1914, reference may also be made to the remarkable change in this period of the position of the Canadian companies as a whole. Assets of some 250 million dollars in 1914 are now approaching the $2\frac{1}{2}$ billion mark. Insurance in force has increased from one billion to $7\frac{1}{2}$ billion dollars, and premium income from less than 40 million dollars to more than 280 million dollars. New business which was then about 150 million dollars per year is now close to 700 million dollars. While changes in methods of accounting make it difficult to compare surplus positions, it may be safely said that the Canadian companies as a whole are in a relatively much stronger position to meet the shocks of war than in 1914.

WAR TIME PROBLEMS

It seems proper also to touch on some of the war time phases of our business. In the first place the Company, in common with other companies, took prompt action upon the outbreak of the war to protect the policyholders against the influx of policies involving an excess of war time risk. At the present time all policies issued to residents of countries at war contain a war provision, which in essence limits the benefits in the following cases—

1. Death while engaged in military or naval service outside this continent, or within six months after return.
2. Death due to aviation while engaged in air force service, or through flight other than as a passenger.
3. Death due to war while travelling abroad as a civilian.

By arrangement among the companies, after consultation with the Dominion Government, certain of the foregoing hazards may be guarded against by the payment of appropriate extra premiums.

Another war time aspect of the Company's business has resulted from the Government's arrangement to permit soldiers to pay insurance premiums by means of pay assignments. Not only is this privilege a very valuable one to the soldier, since it gives him a most satisfactory method of keeping his insurance in force, but it also permits the economical handling of this business by the companies. Many soldiers have taken advantage of this arrangement in order to accumulate a reserve against demobilization, and as a means of guarding against possible uninsurability after the war.

To anyone not thoroughly familiar with the situation, it might be imagined that the regulations of the Foreign Exchange Control Board would have a serious effect upon our operations. Actually this is not the case. One of the first regulations of the Board reads as follows:

"Any life insurance company authorized to do business in any part of Canada and also authorized to do business in any country or countries outside Canada, is authorized to continue to conduct its business in accordance with its normal procedure."

In accordance with this regulation, the Foreign Exchange Control Board has made every effort to permit normal transactions of the life companies to continue without interruption. I think I may safely say on behalf of our own, as well as other companies, that the Board is to be congratulated upon the careful consideration which it has given to the admittedly difficult exchange problems of the life insurance business. Also, I cannot let this occasion pass without expressing the view that the Board's efficient control of foreign exchange in general has produced a high degree of stability in the financial and economic affairs of the community, at a time when violent disturbances might otherwise have occurred.

GENERAL

I feel that in addressing our policyholders my remarks should largely be confined to the field of Life Insurance, and more particularly to matters relating



to the Company itself. Yet as we enter the year 1940 we are strangely conscious that coming events will probably affect us as the events of no other year have or will. None of us can see clearly into the future, and we shall probably need great resources of faith and courage to face the trying days ahead. In the lives of all men there are moments of doubt and uncertainty, and happy is the man whose faith is simple and who can believe that the forces of right are mighty and will prevail.

The tragedy of war is that the innocent as well as the guilty have to suffer, and even non-belligerents ultimately must feel the effects, and indirectly must share in the suffering and travail. Canada as a belligerent will be called upon to make great sacrifices, and the time has come when the men and women who remain at home, and whose duty it is in the conduct of their own affairs to do their part in sustaining the nation, will have to look to themselves as well as to their leaders to see that they practise economy and efficiency, and possess themselves of the many virtues which they so insistently demand that the people in high positions should have.

In our own business, which in the past has proven such a bulwark to the nation both in war and in peace, we shall have to play a great part. The principles upon which Life Insurance is based are unassailable, but in the easy going times of peace it is no doubt true, as in other businesses, that unsound practices have crept in, and it is our duty now to see that these are eradicated. Co-operation among the companies has contributed enormously to place the business on the pedestal it occupies today. There is still, however, much to do in the way of eliminating unwise competition, and in reducing expenses where that can be done without sacrifice. May those in charge of the life insurance companies preserve unsullied the high standard that has ever been shown in the management of the business!

During the war there will inevitably be restrictions imposed that as a people we must willingly accept. Fortunately we have been able to profit by past experience, so that the controls that have been established and the regulations that have been put into effect have not unduly disturbed the efficient conduct of the business of the country. On the whole I think we may congratulate ourselves that those in authority have shown foresight and wisdom in what they have done. In particular I should like to say that we are very fortunate in having in Canada so many able and high minded permanent public officials, whose work perhaps is not generally recognized but who nevertheless are devoting themselves unsparingly and unselfishly in the public interest.

Much has been said about the artificial stimulation to business which the war itself will produce. Removed as we are from the theatre of war we will be spared most of its horrors. Our farms, our factories, our mines, our lumbering interests, our fisheries will be called upon to produce to the maximum. There should be relatively little unemployment, and much of our cost of the war, apart from the credits we shall have to give, should be met out of current income. We cannot afford to pass on to the next generation a greatly increased national debt. Indeed, if we desire to preserve our political independence I believe it vital that we should spend only what we have or can earn, and that we should not by way of mortgage hand over our title deeds to an outside power.

It should be possible during war time to deal with many problems that we have not had the wisdom or courage to deal with in the past. Even our railway problems, which were fast becoming a national menace, may in part solve themselves through increased business activity. May we not hope that the self-restraint, the unselfishness, the willingness to endure regulations that the war has brought about, will generate in our people a spirit of co-operation that will make it easier for our political leaders when peace comes to solve the railway and other national problems that have been confronting us? In particular we hope that they will be able to deal with the changes in the British North America Act that are urgently needed in the interests of national unity. Much as we may desire upon the conclusion of the war to restore the democratic way of doing things, and to permit the largest measure of individual freedom possible, it is to be hoped that the spirit of discipline with which we have become imbued will make it easy for us willingly to surrender some of our provincial prerogatives in the interests of national unity. It is important that the findings of the Royal Commission should receive the thoughtful attention of all thinking people, and our representatives in parliament and in the legislatures should make a determined effort to eliminate the divisive influences that have been so apparent in recent years.

There can be little doubt that when peace returns Canada will be in a preferred position compared with other parts of the Empire, and certainly compared with all parts of Europe. This continent will be an asylum for the war-ridden and weary people of the older world. As the one remaining country with vast unsettled areas and tremendous undeveloped resources, we have an obligation as well as the need to share our heritage with other people. We have a right of course to choose whom we will permit to become fellow citizens of this country, but we have neither the moral right nor the physical power to preserve this great country for ourselves alone. There must still be splendid people, as there were in the last century, who would gladly settle in Canada and share with us the freedom and contentment that this glorious country can give its people. Those of us who are in the life insurance business, and who want to see the capitalistic system maintained, will have to do our part in helping to solve many of the pressing economic problems that have been experienced in the past and that will be accentuated after the war. Among these I believe we will have to pay greater attention than in the past to the urgent need to restore to the rural part of our population a parity of earning power. No class of people is more likely



to oppose revolutionary influences than the farmers of our country. A prominent United States journal has just recently published an article showing that in good times and bad times the farm income of the country approximates closely the total amount paid out in factory payrolls. Any arbitrary increase in the basic rate of factory wages will therefore not provide more money for labour, but merely distribute the farm income among fewer factory employees, and the resulting burden of unemployment has to be met by the country at large. I think it can be said to be true that there is enough work in the Province of Ontario in the way of rehabilitating our farms to keep the unemployed busy for several years. You cannot maintain proper balance in a country if you have one element in a community thoroughly organized and another element unorganized. In other words, a nation cannot be half free and half slave. In all seriousness I would ask my city friends to study this problem because I believe it is one of greatest gravity.

The people of our country are at heart sound. Canada is still a Christian nation, and our churches are in circumstances of great difficulty playing a noble role. Our press too is making a splendid contribution to national unity and welfare. Its influence has been almost wholly on the side of preserving honest and decent standards in our private and public relationships.

In closing I wish to thank our Chairman, Mr. Rolph, our Vice-Presidents, Mr. Mitchell and Mr. Burton, and our Directors generally for the great interest they have shown in the Company, and the assistance they have given in the direction of its affairs. Nor should I fail to thank the Officers and staff, and especially the great force of field workers, for their part in contributing to the success of the Company's operations during the past year. The field man is undoubtedly the most important link in the chain of company workers. It is his activity that actually keeps the Company going. Day in and day out our representatives spread the Life Insurance gospel, and through them its inestimable benefits are brought to the people. We wish to thank our policyholders also for their continued interest in the Company. We would like them to believe that in a very real sense the North American Life representatives are both able and anxious to serve them.

Some of our Head Office and Branch Office employees, many of our field force, and still more of our policyholders are now serving the country in the army, navy or air force. Many more have offered their services. All honour to them, and best wishes for the speedy and safe return of those who go abroad to serve.



NORTH AMERICAN LIFE
ASSURANCE COMPANY

Head Office
TORONTO : CANADA